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ABSTRACT

This competency-based preservice home economics teacher education module on family and individual credit management is the fifth in a set of seven modules on consumer education related to management. (This set is part of a larger series of sixty-seven modules on the Management Approach to Teaching Consumer and Homemaking Education [MATCHE]--see CE 019 901-967.) Following the module objective and overview, four units of instruction are presented: (1) qualifying for credit (includes a lesson on criteria and conditions); (2) getting credit (includes a lesson on methods for getting credit); (3) using credit effectively (includes lessons on determining the dollar costs of credit, and managing and using credit effectively); and (4) solving the problems of overextended credit (includes one lesson, six case studies, and three shopping guides.) Each lesson includes a narrative summary, suggested activities, and suggested resources (readings). A master list of suggested module resources (books, periodicals, films, and educational kits and games) is also included. A module pre/posttest (with answer key) concludes the document. (Workshop proceedings relating to the development of these modules are available in the ERIC system as CE 019 896-899; also available is a module on utilizing FHA-HERC as an instructional strategy to expand and strengthen the home economics instructional programs [CE 019 900].) (JH)

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CONSUMER APPROACH STRAND:

MANAGEMENT

MODULE I-F-5 FAMILY AND INDIVIDUAL CREDIT MANAGEMENT

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1978

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MATCHE

Management Approach to Teaching Consumer and Homemaking Education

MATCHE is an individualized, competency-based preservice curriculum designed for home economics education students at the preprofessional, upper division level. MATCHE is a comprehensive curriculum based on selected objectives which give emphases in three areas: 1) consumer approach to homemaking education, 2) teaching home economics in economically depressed areas, and 3) establishing occupational programs related to home economics. The material for each subject matter area of home economics has been organized into these three strands, and includes an FHA-HERO emphasis. These subject matter areas are home economics education core, housing, foods and nutrition, textiles and clothing, human development, and management.

The MATCHE modules were written by subject matter specialists from various colleges and universities offering home economics and therefore each is unique in the approach used for the development of the objectives. The modules allow for differences in level of achievement, rate of learning, and learning goals. They may be used independently, combined into a sequential series, or as a random set of conceptual units. Any instructor using the material can easily adapt the material to a specific group of students, the locale, method of instruction, and available facilities. Learning may be facilitated by offering one module in conjunction with others.

As MATCHE is continuously up-dated by those using the curriculum, some concepts and objectives may be added and others deleted. The purpose is to continually strengthen the program for pre and inservice home economics teachers.

Guidelines for Use and Continuous Development of MATCHE are on file with Home Economics units in each of the fifty state departments of education plus all of the Home Economics Departments in California institutions offering home economics education. This booklet and proceedings from the four MATCHE workshops give background information concerning the purpose and development of the MATCHE project.

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FAMILY AND INDIVIDUAL CREDIT MANAGEMENT

Module Objectives

When confronted with establishing credit, the MATCHE student will be able to list a variety of alternative methods and verbally document the soundness of each, based on pre-established criteria.

When confronted with a situation of using consumer credit, the MATCHE student will be able to identify methods and procedures for managing individual and family credit effectively.

Given a case study of a family which has overextended itself with credit, the MATCHE student will be able to evaluate alternatives proposed by the family to relieve its situation and create a situation in which the family is able to evaluate its alternatives in the light of its goals, standards, and resources, and its abilities to manage the debt problem. As a consequence, the family would be able to propose changes eventuating in an appropriate solution.

Module Overview

Practically everyone in American society uses credit. If they do so wisely, most individuals and families can increase their standards of living through credit.

It is the young married couples who are responsible for the most consumer debt, according to the 1971 nationwide study by the University of Michigan Survey Research Center. Some 59 or more percent of all families, headed by persons under thirty-five years of age, use installment credit; a large proportion of these remain in debt most of the time. The older the family head is after the age of fifty-four, the smaller the percentage of personal income used for installment payments.[1] Robert Gibson, president of the National Foundation for Consumer Credit, predicts that, with the present extensive use of credit and with increasing inflation, there probably will be an increase from the present 3 to a possible 10 percent of families which will have overextended themselves.[2] Personal bankruptcy, an important

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[1]Jerome B. Cohen. Personal Finance. Homewood, Illinois: Richard D. Irwin, 1975, pp. 157-158.

[2]Ibid. p. 159.

indicator of credit problems, increased 32 percent in 1974-75, as compared to 8 percent in 1973-74.[3]

Evidence that credit management is a central factor in family arguments emerged from the General Mills study of the American Family in 1975.[4] Of the 50 percent of American families reporting that family arguments were over money, 25 percent were because the family was too far in debt, and 8 percent because of difficulties in getting credit.

Lewis Mandel concludes, from his analyses of data from a representative sample of the population used in the 1971 Survey Research Center study, that a large proportion of consumers do not appear to have an understanding of (1) the credit market, (2) the reasons why different types of loans have different costs associated with them, and (3) the reasons why different lenders may be more or less costly. Also, consumers are not aware of current interest charged on such items as autos and revolving credit. The study revealed that knowledge and understanding of credit is closely related to income and education.[5]

However, according to Andreasen, an expert on the affairs of consumers in economically depressed areas, there is some question as to whether consumer education will really be effective in these neighborhoods until problems of unemployment, desegregation, and ghetto retailing are resolved.[6] Nevertheless, all these findings point to the need for early individual and family credit education, that enables role playing as a debtor, so that more credit users may, in their own lives, experience the intended benefits from the effective use of credit.

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[3]Josephine H. Lawyer, "Managing Debts," Journal of Home Economics, 69 (January, 1977), 16.

[4]Yankelovich, Skelly and White, Inc. The General Mills American Family Report, 1974-75. General Mills, Minnesota, 1975.

[5]Lewis Mandel, "Consumer Knowledge and Understanding of Consumer Credit," The Journal of Consumer Affairs, 7 (Summer, 1973), 35.

[6]Alan R. Andreasen, "The Differing Nature of Consumerism in the Ghetto," The Journal of Consumer Affairs, 10 (Winter, 1976), 188.

If you have a strong interest in credit, then by intensive study and investigation through the activities of this module you will be able to offer expertise as a teacher or counselor either in the school system or in business.[7] Individual and family debt problems are major factors in finance management; the demand for assistance in this area is increasing.[8,9,10]

General Guide for Use of the Module

The module is presented in an orderly sequence of units according to the following:

Unit 1: Qualifying for Credit

Unit 2: Getting Credit

Unit 3: Using Credit Effectively

Unit 4: Solving the Problems of Overextended Credit

Independent library study is facilitated by providing a wide range of selected resources for each unit. No one resource is comprehensive enough to enable you to achieve the unit or module objectives. In addition, the Suggested Resources provides other sources related to the module as a whole, such as exhibits related to module activities, sources displaying typical agreement forms, and selected media at adult level.

Students may wish to study single units in this large module as if they were separate modules; each unit is self-contained so that the module can actually be separated physically into four units as long as the Suggested Resources are attached to each unit. Also, students or instructors may want to select from rather than use all activities in the module or may design other activities of their own.

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[7]California State Department of Education. Instructional Patterns of Consumer and Homemaking Education. Sacramento: Bureau of Publications, 1976.

[8]Albie Rasmussen, "Family Financial Counseling: A Military Outreach Program," Journal of Home Economics, 69 (January, 1977), 18-21.

[9]Charlotte V. Churaman, "Home Economists at Work: A Roundup of Experiences," Journal of Home Economics, 69 (January, 1977), 18-21.

[10]W. F. Ford. "Stretching Dollars for the Unemployed," Journal of Home Economics, 67 (November, 1975), 34-36.

UNIT 1

QUALIFYING FOR CREDIT

Objectives

The MATCHE student will be able to list the major criteria used by organizations for qualification for credit as well as the component factors for each criterion which affect the degree to which each criterion is met.

The MATCHE student will be able to describe how economic factors affect the availability of credit to individuals.

Given the necessary information about several different individuals applying for credit, the MATCHE student will be able to list criteria for qualification, to be met by each individual, and to predict whether or not the individual would qualify for credit.

The MATCHE student will be able to describe a variety of conditions or terms required by creditors in their written agreements if applicants otherwise qualify for credit.

Overview

In order to qualify for credit, you must meet certain criteria set up by organizations granting credit. It is important to know the criteria used by different organizations, as well as factors in the economy that may affect the availability of credit or the conditions for granting credit to some individuals. You should also be able to determine whether or not different individuals probably will qualify for credit according to the extent to which they meet these criteria.

Lesson: Criteria (or facts) and Conditions
Qualifying Individuals for Credit

Narrative Summary

Effective income management does depend on how much you can and do control factors in your life affecting the credit risk you represent when you apply for consumer credit. These qualifying factors tell a creditor whether you meet the criteria of character, capital, and capacity necessary to get credit and on what terms. Unique conditions,

primarily related to stage in the life cycle, income level, and marital status, affect individuals applying for credit in recognizable ways. In other words, a creditor must base his decision as whether to extend credit on the risk he is willing to take regarding your ability and willingness to repay the debt. A sophisticated consumer also knows how federal and state laws provide certain rights affecting his or her qualifications as a credit user and prescribe the nature of the agreement he signs.

The activities of this unit which follow will enable you to carry out the first step in getting credit, that is, to qualify for it. Concomitantly by reviewing the circumstances of special groups of credit users, you will be in a position to estimate the credit worthiness of others in differing circumstances.

> All activities should be submitted to and discussed with your instructor.

Guide - Unit 1

As a first step in accomplishing the objectives of this unit, review the literature in the Resource List, particularly those authors identified at the end of each question which follows in sections A through F. Use questions as a progress check to determine gaps in your knowledge and comprehension regarding the first two unit objectives. Then carefully plan interviews and contacts suggested as activities in Section G. Your interviewing skill may reflect an important image of your potential as a professional to persons in business and will affect the time/cost benefits for both participants (for help with interviewing, see p. 58). These activities in Section G are designed to develop abilities to apply knowledge realistically to specific situations, the focus of the third objective. They may be carried out individually or in small groups and should be discussed periodically with the instructor.

Suggested Activities (Independent Library Study)

A. 1. Develop a glossary to include each of the following terms used in relation to the objectives of this unit:

Acceleration clause
Antecedents
Assets
Balloon payment
Balance sheet
Borrower

Capacity
Capital
Character
Collateral
Collateral note
Conditions
Confession of Judgment
Cosigner, comaker, contingent obligor, guarantor
Credit agreement
Credit application
Credit bureau
Credit identity
Credit investigation
Credit: open end, closed end, sales, cash
Credit report
Credit risk
Credit worthy
Creditor, lender
Default charges
Deficiency judgment
Down payment
Economic environment, business conditions
Installment
Net worth statement
Property
Retail Installment Contract or Security Agreement
Repossession (replevin)
Right of Rescission
Secured Note
Promissory Note (the Note)
Terms
Unsecured Note
Wage Assignment
Waiver

Resource List: See glossaries in Thomas E. Bailard; Sylvia Porter; Money Management Institute.

2. Briefly list how each of the following laws relates to the first two objectives of this unit.

a. California Consumer Credit Reporting Agencies Act (1976)
b. Re: Contingent Obligors (Cosigners) (Calif.)
c. Federal Truth in Lending Law: Regulation Z
d. Federal Fair Credit Reporting Act
e. Rees-Levering Motor Vehicle Sales and Finance Act (Calif.)
f. Three Day Cooling Off Period (Calif.)
g. Unruh Retail Sales Installment Contract (Calif.)

Resource List: See <u>A Guide to Consumer Credit Laws</u>.

B. The following questions will help you become aware of the component factors related to character, one of the qualifying criterion when you apply for credit.

1. To qualify for or establish credit, character is one criterion used by creditors. Four personal qualities describe what is meant by this criterion. What are they?

a. c.

b. d.

When you have completed the questions in Section A, explain how any one of these four personal qualities (or component factors) is related to one specific aspect of each of the questions below. Respond on a separate page.

2. Complete this table:

Housing pattern of applicant	Which personal quality may be involved?	Check (✓) if pattern may cause lender to inquire further
a. Rents, history of slow pay		
b. A pattern of renting for short periods		
c. Lived in a rented dwelling two years or more		
d. Telephone number found to be at different place from home address given		
e. Address given is not consistent with employer's record		
f. Address is at a distance from the loan office		
g. Post office box number only		
h. Owns home, mortgage payments regular		

Resource List: See Jerome B. Cohen; Arch W. Troelstrup; Michelle D. Stratton; Sylvia Porter: United California Bank.

3. As a new resident in a city where you have no credit identity, one or more of the following four cards or certificates may be used as identification when you try to qualify for credit:

a. c.

b. d.

Resource List: See Sylvia Porter.

4. The credit bureau may be asked to report your public record held in the office of the _____ of the county where you live. This record may show that you

a.

and/or b.

and/or c.

and/or d.

Resource List: See Richard Stillman; Harold A. Wolf; Bank of America, Consumer Information Report 3.

5. A credit bureau cannot report adverse information that is more than _____ years old, with the exception of _____ for _____ years and _____ insurance or loans amounting to $_____ or more.

Resource List: See Roger LeRoy Miller.

6. A beginning credit applicant's character is tested for evidence of _____ and _____. A low-income applicant may be able to provide this by showing several promptly paid _____ and _____ as well as a good _____.

Resource List: See Michelle D. Stratton.

7. a. To check honesty (credibility and truthfulness), a loan officer will assess whether the information given on the application form and in the interview is _____. This may be judged by one or more of the following means:

(1)

(2)

(3)

(4)

Resource List: See Bank of America, Consumer Information Report 3; Andrew J. Allentuck.

b. In addition, the loan officer will seek a credit report and normally will do a credit investigation. How are these carried out? What may they tell about the applicant's character?

Resource List: See Robert H. Cole, pp. 267-272, 281-283; Sylvia Porter, p. 58; Jerome B. Cohen (1975), pp. 169-172.

c. How can the applicant provide strong evidence of qualities of character through use of a bank savings account?

Resource List: See Robert H. Cole; Sylvia Porter; Bank of America, Consumer Information Report 3.

8. A loan officer assesses character through interviews, especially when explanations are necessary for factors on record which appear potentially negative. Describe favorable evidence of character which may show up in such an interview.

Resource List: See Nancy Spillman; Arch W. Troelstrup; Robert H. Cole.

9. Why and how may grading scores or point systems be used as one of the denominators to assist a creditor in determining whether an applicant qualifies for credit?

Resource List: See Jerome B. Cohen; E. Thomas Garmon; Bank of America, Consumer Information Report 3.

10. A beginning credit applicant should increase his or her character reputation to be a responsible person, willing to pay bills by qualifying for _____ credit or _____ credit before seeking credit from other sources.

Resource List: See Michelle D. Stratton, p. 10, and others.

11. Prepare a list of separate questions related to credit history where the applicant's responses may disqualify him for:

a. inadequate sense of responsibility (due to no evidence or negative evidence)

(1)
(2)
(3)
(4)
(5)
(6)

b. weak judgment.

(1)
(2)
(3)
(4)

Resource List: See Michelle D. Stratton; Sylvia Porter.

C. The following questions will help you become aware of the component factors related to capacity, one of the qualifying criteria when you apply for credit.

1. List six separate questions which an applicant may be asked pertaining to employment and dependents in order to discover the dependability of the applicant's capacity to repay debt.

a.

b.

c.

d.

e.

f.

Resource List: See Sylvia Porter; Paulena Nickell; Bank of America, Consumer Information Report 3.

2. Which factor is likely to be more significant in an employment history; the continuity of employment and income or the length of time spent with an employer? What is a favorable length of employment with an employer to qualify for a bank loan?

   Resource List: See Michelle Stratton.

3. According to law, a creditor must consider all income if received regularly. There is one exception regarding a woman's income. Explain a woman's rights regarding child support or alimony and how this income may be evaluated by a creditor.

   Resource List: See California Department of Consumer Affairs, Credit for Women; Bank of America, Consumer Information Report 3.

4. a. If a divorced or remarried woman tries to qualify for credit, what changes may occur in how her capacity to repay is evaluated?

   b. If a married woman, widow, or divorcee applies to qualify for credit on her own, what problem may she face regarding how her capacity is evaluated, even though she is earning a regular income herself? What can she do to resolve this problem?

   Resource List: See California Department of Consumer Affairs, Credit for Women: Michelle D. Stratton; Martha L. Barrison. (Periodical, etc., list)

5. List three questions which may be investigated regarding an applicant's employer.

   a.

   b.

   c.

   Resource List: See Richard Stillman; Robert H. Cole.

6. If you (male or female) as applicant want to qualify for credit from a new source and you have a credit history, list several kinds of evidence of capacity to pay, other than the employment and income factors, which a prospective creditor had the right to investigate in 1977 and later.

Resource List: See United Bank of California; Arch W. Troelstrup; Sylvia Porter; Michelle D. Stratton; Bank of America, Consumer Information Reports 4 and 7.

D. The following questions will help you become aware of the component factors related to capital, one of the qualifying criteria when you apply for credit.

1. A credit applicant may be asked for evidence of a checking and/or savings account(s). What does a creditor want to know about an applicant's checking account?

Resource List: See United California Bank; Harold A. Wolf.

2. How may the location of the telephone number which you give a creditor affect how the criterion of capital is evaluated?

Resource List: See Sylvia Porter.

3. a. For some loans, personal property ownership is questioned to affirm the capital qualification of an applicant. What may be of sufficient value to be listed as property? Name seven different categories of items.

Resource List: See Sylvia Porter.

3. b. What has happened to the concept of collateral when goods are purchased for credit?

Resource List: See Arch W. Troelstrup (1974), p. 188.

4. For some loans, a net worth statement or balance sheet is requested in order to evaluate capital of the applicant. What will a creditor look for in such a statement? Identify three points of information.

Resource List: See Roger LeRoy Miller; United California Bank; Bank of America, Consumer Information Report 5.

E. 1. In addition to the 3C's, character, capacity, and capital, there are conditions which determine an applicant's qualification for credit. One condition is that an applicant almost always must sign a written agreement between the creditor and the credit user. Identify the main characteristics of the following agreements:

a. Retail Installment Contract or Security Agreement
b. Promissory Note (the note)
c. A Waiver
d. A Wage Assignment

Respond on a separate page.

Resource List: See Thomas E. Bailard; Sylvia Porter; Money Management Institute; The Compleat California Consumer Catalog; Jerome B. Cohen.

2. Prepare a list of requirements (conditions) which may pertain when qualifying for either cash or sales credit.

Resource List: See Jerome B. Cohen and others.

3. One of the conditions qualifying an applicant for credit is that he or she will sign an agreement to be responsible for repayment.

a. List all items which are required by law to appear in a credit agreement to repay in installments.

b. What is the law referred to in part a?

c. Under the law, what are the obligations of the creditor and the debtor once the agreement is signed? Develop two lists.

Creditor	Debtor

d. Review copies of at least four different types of credit agreements. See the list of "Sources of Forms" on p. 59.

e. Before signing a credit agreement, the applicant should understand fully how he or she will be affected if the agreement includes any one or more of the following:

-an acceleration clause
-a balloon payment a prepayment penalty
-default charges
-confession of judgment
-consequences for failure to pay (collateral, chattel, wage assignment)
-cosigner
-right of rescission
-legal action and costs
-repossession (replevin)
-waiver

On a separate page, explain how each of these may affect the applicant who signs the agreement.

f. Differentiate between wage assignment and wage garnishment.

Resource List: See Robert H. Cole, p. 380; Sylvia Porter; Money Management Institute; Jerome B. Cohen (1975); Barkeley Clark.

4. a. List about six different factors affecting business conditions that may affect the actual availability of credit and/or the credit terms (conditions) offered a credit applicant.

b. Explain how the effects of these conditions may differ for applicants showing different levels of risk to the creditor.

Resource List: See Robert H. Cole; Thomas E. Garmon; Roger LeRoy Miller; and U.S. News and World Report, January 10, 1977; Jerome B. Cohen (1975).

F. 1. Identify the special problems which affect eligibility for credit or the conditions for getting credit of each of the following special groups:

a. the low- and lower-middle-income elderly on pension or social security
b. the welfare recipient
c. the teenage consumer
d. the low-income family with one parent, usually the mother
e. Explain briefly how eligibility and/or conditions are affected for each of these special groups.
f. Peruse the literature to discover unique efforts which have been or are being made in the United States or in Canada to enable individuals in any of these above groups with good character to get credit.

Resource List: See as Books, David A. Aaker, pp. 163, 346-348, 369-371, 395-398; David Caplovitz, pp. 15-17, 24-25, 49-55; Jerome B. Cohen (1975), pp. 15-17; Irma H. Gross,et al., pp. 559-562; Laurence P. Feldman, et al., pp. 230-244; Arch W. Troelstrup, pp. 192-193, 173 (the excessively indebted); Frances L. Feldman (life styles); Alan R. Andreasen--entire book; Andrew J. Allentuck, et al. As Periodicals, Thomas F. Carghill; Milton J. Huber and Robert O. Herman; Alan R. Andreasen. As Bulletins, Jean S. Bowers; Alvin E. Levin; University of the State of New York; and the Urban Coalition.

G. Suggested Activities With Interviews

These activities are designed so that you will focus on different types of credit applicants' needs and circumstances, including your own. Before proceeding to the activity, decide which of the six case descriptions (see p.47) will provide you with the professional development necessary to reach the third objective.

Regarding questions 1 and 2: In each case, assume that there is a need for approximately $500 in either sales or cash credit and that the case is similar to one of the descriptions in cases 1 through 5, see p. 47 .

1. Inquire at a major bank, savings and loan company, consumer finance company, credit union, and department store regarding whether and how scoring systems are used, in each case, to assist in the credit rating of an applicant. Before the interview, review the institutions' credit application forms and be able to identify how each piece of information asked relates to the 4C's of credit examined in sections A-E of these activities. Ask how each of the following components of the application are evaluated: residence, telephone, job, take-home pay, bank accounts, other savings, purposes for the credit requested, previous history of cash or sales credit repayment (1) with the institution itself and (2) for other debts. In each case estimate your own rating.

2. Select any two cases, different from your own circumstances, and add more detail appropriate to the current cost of living in your area, as is necessary.

   Visit a retail store, a bank, a savings and loan company, a credit union, and a consumer finance (or small loan) company, and consider an insurance loan, if appropriate.

   a. Find out what personal information is required in this case if you apply for credit.

   b. Ask whether your capacity and capital allow you to apply for credit, if they were to find that your character is judged satisfactory. Ask whether you would be eligible for a line of credit and/or what your credit limit is.

   c. Review any other credit terms or conditions which would characterize your obligation if you qualify for credit and are willing to sign an application or agreement. What difference would exist if the agreement is secured or unsecured?
   Note: Other activities related to these same selected cases will be found in Units 2 and 3 of this Module.

d. Ask whether and how each credit source complies with laws which are related to your case and the objectives of Unit 1.

Regarding question 3: In this case, assume that there is a need for $1000 or more in cash credit and that the case is similar to the case description #6, see p.48 . It may be interesting to compare findings if the credit user is male or female in this particular case description.

3. Visit a bank, savings and loan company, credit union, consumer finance (or small loan) company. Assume that in this case you do or do not have $3000 savings in the company where you are seeking the loan. Assume that you do or do not have already a bank credit card.

a. Find out what personal information is required in this case if you apply for credit.

b. Ask whether your capacity and capital allow you to apply for credit, if they were to find that your character is judged satisfactory. Ask whether you would be eligible for a line of credit and/or what your credit limit is.

c. Review any other credit terms or conditions which would characterize your obligation if you qualify for credit and are willing to sign an application or agreement. What difference would exist if the agreement is secured or unsecured?
Note: Other activities related to these same selected cases will be found in Units 2 and 3 of this Module.

d. Ask whether and how each credit source complies with laws which are related to your case and the objectives of Unit 1. Focus particularly on how the Fair Credit Reporting Act affects your status.

Suggested Resources

Books (for complete bibliographical reference detail, refer to Suggested Resources: Master List)

Aaker, David A. Pp. 163-164; 346-348; 369; 371-372; 395-398.

Allentuck, Andrew J., et al. Pp. 164-167; 168-170.

Bailard, Thomas E. Pp. 224; 228-232.

California Department of Consumer Affairs. The Compleat California Consumer Catalog. Pp. 52-53; 57; 60; 61.

Caplovitz, David. Pp. 59; 76-84 (cosigner).

Cole, Robert H. Chapters 11-12, 14; pp. 332 (regarding credit limits).

Feldman, Laurence P. Pp. 230-244.

Garmon, E. Thomas. Pp. 109; 120; 122.

Miller, Roger LeRoy. Pp. 119; 121; 123; 137; 142 (right of rescission and credit limits).

Nickell, Paulena, et al. Pp. 296-297 (chart regarding credibility).

Porter, Sylvia. Pp. 79; 86-88; 132-135; 994, 995; 1014-1017.

Spillman, Nancy B. Pp. 67-68.

Troelstrup, Arch W. Pp. 179-183.

Bulletins, Pamphlets, Periodicals (for complete reference detail, refer to Suggested Resources: Master List)

Bank of America: No. 3,4,5,7. Consumer Information Reports.

Bowers, Jean S. all.

California Department of Consumer Affairs. Credit for Women.

Carghill, Thomas F. Pp. 69-76.

Citibank. Borrowing Basics for Women. P. 9.

Dauten, Dale A., and Joel J. Dauten. Pp. 62-71.

Herrmann, Robert O. Pp. 89-97.

Huber, Milton J. P. 94.

Levin, Alfred E. Printed materials.

Matthews, H. Lee, and John W. Slocum, Jr. Pp. 71-78.

Report of the National Commission on Consumer Finance. P. 160.

Stratton, Michelle D., and Nancy Peterson. Women and Credit. 16 pp.

United California Bank. Newsprint Series, No. 3, 6.

The Urban Coalition. Consumer Credit and the Low Income Consumer. 105 pp.

University of the State of New York. Consumer Problems of the Poor. 51 pp.

"Cheaper Credit," U.S. News and World Report. Pp. 80-82.

Exhibits (see sample Application forms, p. 58)

Laws, Rules, and Law Bulletins

California Department of Consumer Affairs. A Guide to Consumer Credit Laws. California Department of Consumer Affairs, 1020 N St., Sacramento, CA. 95814, 1976, paperback 19 pp. See also sample forms in this guide.

Contingent Obligors (California Civil Code, Section 1427, et seq.)

Federal Reserve System, "What You Ought to Know About Federal Regulation Z: Truth-in-lending; Consumer Credit disclosure. Board of Governors, Federal Reserve System, Washington, D.C., 1969.

Federal Trade Commission. Fair Credit Reporting Act. F.T.C. Buyer's Guide, No. 7, Washington, D.C.

Federal Truth in Lending Act, Regulation Z (12 CFR 226).

Rees-Levering Motor Vehicle Sales and Finance Act. (California Civil Code Section 2981, et seq.)

Three Day Cooling Off Period, California Civil Code, section 16895.

Unruh Retail Sales Installment Contract (California Civil Code Section 1801, et seq.).

Progress Test--Your instructor may select randomly a number of the activities of this unit as a progress test for it. If you have accomplished the objectives of this unit adequately, proceed to Unit 2.

UNIT 2

GETTING CREDIT

Objectives

The MATCHE student will be able to list and describe alternative methods by which to get credit.

Given examples in which individuals want to get credit, the MATCHE student will be able to describe the best method for each individual to get credit under existing conditions.

Overview

There are various methods by which to get credit, and it is important that you be able to describe these alternative methods. You should be able to determine which of these methods for getting credit is best for different individuals under different circumstances.

Lesson: Methods for Getting Credit

Narrative Summary

Nearly 50 percent of all families in the United States have qualified for credit and have some debt; many others are using credit services without finance charges. A variety of types of cash and sales credit sources, accepting differing degrees of credit risk, have developed to meet the public demand for consumer credit.

Each type of credit source provides users with its own typical array of limitations and conveniences. Effective money management depends also, therefore, on how well informed the credit user is about the methods for getting credit from the sources open to him or her in the community.

This lesson is designed as the second orderly step in seeking credit, which is to narrow the choice of methods for getting credit to a few of the best alternative sources. This should usually be done before making the final decision based on the cost of credit and your determination of how much credit you can afford. Factors in this final decision are the foci for Unit 3.

All activities should be submitted to and discussed with your instructor.

Guide - Unit 2

As a first step in accomplishing the objectives of this unit, review the literature in the Resource List, particularly those authors identified at the end of each question which follows in sections A and B. Use the questions as a progress check to determine gaps in your knowledge and comprehension regarding the unit objectives. Then carefully plan interviews and contacts suggested as activities in Section C. Your interviewing skill may reflect an important image of your potential as a professional to persons in business and will affect the time/cost benefits for both participants. The activities in Section C are designed to develop abilities to apply knowledge realistically to specific situations, a focus of the second objective.

Suggested Activities (Independent Library Study)

A. 1. Develop a glossary to include each of the following terms used in relation to the objectives of this unit:

Charge account; 30-day, revolving
Check credit plan
Commercial bank
Consumer loan
Consumer finance company (small loan company)
Credit cards--retail, bank, national
Credit union
Installment cash credit
Installment retail credit
Life insurance loan
Line of credit, steady credit
Loan shark (illegal in California)
Non-installment credit
Pawnbroker
Personaline credit
Savings and loan

Resource List: See glossaries in Thomas E. Bailard; Sylvia Porter; and Money Management Institute.

2. Briefly list how each of the following laws relate to the objectives of this unit.

   a. Federal Fair Credit Billing Act--Regulation Z
   b. Song-Beverly Credit Card Act (Calif.)
   c. Other Acts listed in Unit 1, Activity A, question #2.

   Resource List: See A Guide to Consumer Credit Laws.

B. 1. List three different types of loans and three different types of sales credit. For each type, describe specific characteristics differentiating it from others.

Loan Credit	Sales Credit
1. _____	1. _____
2. _____	2. _____
3. _____	3. _____

   Resource List: See Money Management Institute, p. 18.

2. Identify five sources of credit that are not commonly considered sources. Describe the risks and legal protection of the consumer (or lender) affecting use of each source.

   Resource List: See Jerome B. Cohen (1975).

3. a. Refer to the Resource List at the end of this question and develop a large chart enabling comparison among all the commonly used sources of loans. Use the following headings as bases for comparison: eligibility, effective annual cost, range of loan values, collateral necessary, maximum maturity, credit investigation, other characteristics.

   Resource List: See example, Jerome B. Cohen (1975), pp. 246-247.

   b. Which source(s) of consumer loan offers the most borrowing opportunity to the borrower with a good credit rating?

   Resource List: For both parts of question 3: See Jerome B. Cohen; Thomas E. Bailard; Richard J. Stillman; Money Management Institute; Harvey Radin; Consumers Report; San Francisco Consumer Action; Frances L. Feldman.

4. Review the guidelines developed for the "Management of Credit" by Arch W. Troelstrup and identify those of particular importance to anyone faced with the need or desire for a cash loan.

   Resource List: See Arch W. Troelstrup (1974), pp. 193-194.

5. Differentiate between:

   a. retail store credit cards and bank credit cards
   b. bank credit cards and travel/entertainment credit cards
   c. revolving charge accounts and 30-day accounts
   d. revolving charge accounts and retail-store installment contract
   e. revolving charge account and check credit plans

   Resource List: See Money Management Institute; Thomas E. Bailard; Jerome B. Cohen; Frances L. Feldman.

6. Review the seven considerations when shopping for sales credit developed by Thomas E. Bailard, et al.

   Resource List: See Thomas E. Bailard, pp. 232-233.

7. Following the suggested activities in Part C and your Unit 1 (activity F-1) reading about the nature of the cases (see p.24), what additional guides would you add, if any, to those guides recommended by Troelstrup and Bailard in questions 4 and 6 above, respectively? Respond on a separate page.

C. Suggested Activities With Interviews

These activities are designed so that you will focus on different types of credit applicants' needs and circumstances, including your own. Before proceeding to the activity, again decide on which of the six case descriptions (see p. 47) will provide you with the professional development necessary to reach the second objective.

Regarding questions 1 through 5: In each of these cases, assume that there is a need for approximately $500 in either sales or cash credit. Also, if the creditor will not consider as small a loan as $500, would the client be eligible for a larger loan? If so, for how much, and under what conditions?

Plan to visit a major bank, consumer finance company, savings and loan company, credit union, and retail department store, and consider an insurance loan where appropriate. In some instances, it may be interesting and beneficial to visit more than one institution of any one type.

1. For case #1, determine where the best conditions in the credit agreement exist for a widower whether he gets credit in cash or sales form as a means to pay approximately $500 for the appliance he chooses to pay for within one year. Ask critical questions of at least two of the creditors.

2. For case #2, what options for credit are open to a teenager for credit on a $500 musical instrument? Where can he or she get credit with the best conditions for both the mother and the teenager? Talk the situation over with at least one creditor.

3. What options are open to a family on welfare? When you consider the conditions involved for the family to get credit from these options, would you buy the television set on credit from any of the credit sources? Why? Schedule an interview with at least one loan source.

   Also, what conditions may result if the client were to use a cosigner rather than real property as security? What value of goods would have to be given up in a pawnshop in order to finance $100 of this $500 loan? What would be the conditions for this $100 loan? In California, would it be legal for a loan shark to offer a loan to such a client? If not, is this legal anywhere in the United States?

4. For case #4, where can a family get the $500 it needs now for a mortgage payment. Assume that the Consumer Credit Counselors can help by recommending certain changes in budgeting in order to meet obligations in future months with present income, barring emergencies. Discuss this problem with a finance counselor either at a consumer credit counselors' office, a credit union, or a bank. What effects does their situation have on the terms available to them for an emergency loan?

5. For case #5, what is probably the best $500 credit arrangement for an employed single person? Why? Investigate by telephone to determine how satisfactory inquiries by telephone are for such needs as this.

   Regarding question 6: This question refers to Case #6 (see p. 48).

6. For this case, a $1000.00 loan is needed. Compare loan sources to find out whether a loan can be made and under what conditions. Visit a bank, savings and loan company, credit union, industrial bank (Morris Plan) and consumer finance (small loan) company. Assume that in this case you do or do not have $3000 in savings at the company where you are seeking the loan. Assume also that you do or do not have already a bank credit card.

7. Interview bankers at more than one of the major banks to learn specific details regarding various forms of "steady" or "ready" credit. Who qualifies? What are the APR's? Does the rule of 78 pertain? What rights does the bank have if the credit user fails to repay? One new form is "personaline" credit at the Bank of America. Who can use this service?

8. Remember to go back to question #7 among the Progress Check questions after you have completed the activities and readings.

Suggested Resources

Books (for complete bibliographical reference detail, refer to Suggested Resources: Master List)

Bailard, Thomas E., et al. Pp. 212-219; 224-235.

Cole, Robert. Chapters 4, 5, 7, 8.

California Department of Consumer Affairs. The Compleat California Consumer Catalog. Pp. 50; 54.

Cohen, Jerome B. (1975). Pp. 163-168, 175-182, 233-244, 246-247.

Feldman, Frances L. Pp. 324-334, 334-344; 39-46.

Garmon, E. Thomas. Pp. 121; 124; 125; 225-229.

Mandell, Lewis. Entire book (credit cards).

Miller, Roger LeRoy. Pp. 113-115; 123; 125.

Nickell, Paulena, et al. P. 298 (California comparisons in 1975).

Porter, Sylvia. Pp. 88-110; 115-120.

Stillman, Richard. Pp. 47-55; 66-82.

Troelstrup, Arch W. Pp. 193-194; 176-179.

Wolf, Harold. Pp. 143-155.

Bulletins and Periodicals (for complete reference detail, refer to Suggested Resources: Master List)

Dauten, Joel J., Vincent P. Apilado, and Don C. Warner. Pp. 95-110.

"How to Shop for Credit." Pp. 171-178.

Matthews, Lee, and John W. Slocum, Jr. Pp. 71-78.

Money Management Institute. Pp. 20-21.

Oregon Board of Education. 45 pages.

Radin, Harvey. Pp. 10-12.

San Francisco Consumer Action. Break the Banks.

Exhibits (see sample Application forms, p. 58)

Laws, Rules, and Law Bulletins

Department of Consumer Affairs. A Guide to Consumer Credit Laws, 1976.

Federal Fair Credit Billing Act, Regulation Z.

Song-Beverly Credit Card Act (California Civil Code Section 1747, et seq.), 1971.

Progress Test--Your instructor may select randomly a number of the activities of this unit as a progress test for it. If you have accomplished the objectives of Unit 2 adequately, proceed to Unit 3.

UNIT 3

USING CREDIT EFFECTIVELY

Objectives

Given several different situations involving purchase on credit, the MATCHE student will be able to determine credit costs.

The MATCHE student will be able to list comprehensively guidelines for the effective use and management of credit, including special considerations for different types of credit users; the student will be able to identify the most effective method for using credit as well as take a managerial approach to credit in each of several different situations.

The MATCHE student will be able to differentiate between a credit report and a credit investigation as to their purposes and content, and will be able to describe the credit rights and responsibilities of different debtors regarding protection of their credit reports.

Given several different situations involving decisions whether to use more credit, the MATCHE student will be able to identify situations when a debtor may be vulnerable to problems of overextended credit usage.

Overview

Once you have learned the methods for qualifying for and getting credit, the important thing is to know how to use it effectively. You will need to know how to determine credit costs, to reduce credit costs, to prevent becoming vulnerable to overextended credit problems, and to maintain and protect your credit rating. As a consequence of developing these abilities and skills through the activities of this unit, you will be able to identify the most effective methods for using credit in various situations.

Lesson 1: Determining the Dollar Costs of Credit

Narrative Summary

While the dollar cost of sales credit is controlled by law, the credit user needs to be aware of how these controls affect the cost where he is purchasing credit and how both cash and sales credit costs may and must be stated in an agreement. A credit user must know also how the cost of credit is calculated by the creditor. Knowing all these facts will serve two purposes: the credit user can (1) decide the most effective choice of available credit and (2) check the accuracy of his or her credit billing. Upon completion of this lesson you will be able to identify precisely which is the best financial deal among those credit sources available in individual situations. This is the essence of the third unit objective. In addition, you will need to understand other means to control the direct and indirect dollar costs of credit through Lesson 2.

> All activities should be submitted to and discussed with your instructor.

Guide - Unit 3

As a first step in accomplishing the third objective of this lesson, review the literature in the Resource List, particularly those authors identified at the end of each question which follows in sections A and B. Use the questions as a progress check to determine gaps in your knowledge and comprehension regarding this lesson objective. Then carefully plan how to effectively carry out the field activities in Section C. These activities in C will improve your comprehension for this lesson, enabling you to be more effective in accomplishing the remaining objectives of this unit through Lesson 2. They may be carried out individually or in small groups and should be discussed periodically with the instructor.

Suggested Activities (Independent Library Study)

A. 1. Develop a glossary to include each of the following terms used in relation to the third objective of this lesson:

Acceleration clause (also Unit 1)
Accrue
Add-on charge
Add-on clause
Amortization
APR--Annual Percentage Rate

Balloon payment (also Unit 1)
Closing date
Credit life and disability insurance
Default charge
Discretionary income
Down payment
Early repayment (Rule of 78)
Finance charge
Free ride period
Holder in due course (Wolf, pp. 163-166)
Income: net, gross
Income tax deduction
Lay-away plan
Maturity date
Methods - declining balance or adjusted balance
- average daily balance
- previous balance
Principal
Pyramiding (trading-up)
Rebate
Refinance
Simple interest
Unpaid balance

Resource List: See glossaries in Thomas E. Bailard; Sylvia Porter; Money Management Institute; and The Compleat California Consumer Catalog.

2. Briefly list how each of the following laws relates to the objectives of this lesson.

a. California Lay-Away Practices Law
b. California Usury Law
c. Three Day Cooling Off Period (California)
d. Federal Fair Credit Billing Act
e. Federal Truth in Lending Act
f. Rees-Levering Motor Vehicle Sales and Finance Act (California)
g. Unruh Retail Sales Installment Contract (California)

Resource List: See A Guide to Consumer Credit Laws; The Compleat California Consumer Catalog.

B. 1. What is the approximate difference in cost and personal risk of property of a secured loan and an unsecured loan?

Resource List: See Thomas E. Bailard, pp. 211 and 216.

2. Explain the difference to a debtor if an installment contract loan is completely repaid before it is due and whether the interest on the original loan was calculated by the declining interest or by the add-on interest method where the Rule of 78 applies. Explain the problem of early repayment from the lender's and the debtor's viewpoint.

   Resource List: See Nancy B. Spillman; Harold A. Wolf; Edward A. Dyl (periodical).

3. What are the justifications for variation in costs of consumer credit to the debtor from one institution to another (a) for sales credit and (b) for cash credit?

   As sources of sales credit consider: installment contracts and security agreements as compared to credit cards; differences among types of retail outlets.

   As sources of cash credit consider: insurance policy loan; banks; savings and loan companies; consumer finance (small loan) companies, and credit unions.

   Resource List: See Roger LeRoy Miller; Jerome B. Cohen (1975).

4. Why is there no annual fee for Bankamericard (or VISA) or Master Charge as there is for the American Express Card?

   Resource List: See Richard J. Stillman; Thomas E. Bailard.

5. Develop, on a separate page, an extensive list of ways to control the cost of credit. Include in your thinking special consideration for persons in special groups of the population such as in cases (see p.47).

   Resource List: See Sylvia Porter and others.

6. Explain how to determine the actual cost of credit by comparison to cash when you take into account taxes, inflation and the loss of savings interest on interest. E.g., if you are in the 30 percent income tax bracket, describe how to calculate the actual interest paid for a typical consumer loan of $300 paid off in one year. The stated rate is an APR of 12 percent and inflation in the year of purchase is about 6 percent.

   Resource List: See Thomas E. Bailard; Richard J. Stillman.

7. You have made a payment on a bill from a revolving charge account that was received on January 6 covering transactions up to December 20, your billing date. Now you have a balance of $100. Then on December 23 you purchased a gift for $250 and charged it. On January 15 you mailed an additional $100 by check to the store. No other goods were purchased until the next bill was received on February 6 covering transactions between December 20 and January 20. It is stated on your bill that the periodical rate charged is 1.5 percent per month, an APR of 18 percent. (See p.58 #10 Sears.)

   What is the dollar cost for the credit if the method used to calculate the finance charge is:

   a. The average daily balance method? _____
   b. The previous balance method? _____
   c. The declining (adjusted) balance method? _____
   d. Call your local field office of the Federal Trade Commission to ask whether these differences are allowable with a quoted 18 percent APR.
   e. What interest in these differences is shown by local consumer groups?

   Resource List: See Money Management Institute; Andrew J. Allentuck, et al.

8. a. If you are a credit card holder and you find a billing error for one of five items on your monthly statement, what steps should you take to have it corrected and how soon?

   b. How should you handle payment of the above bill?

   c. Explain other rights and responsibilities which pertain to you and the creditor if (1) you are in error in making the complaint and (2) the creditor does not follow the rules.

   d. State the name of the law protecting you in this instance. What agency should hear your complaint if it is not being resolved by the creditor?

   Resource List: See Sylvia Porter; The Compleat California Consumer Catalog; A Guide to Consumer Credit Laws; Andrew J. Allentuck.

9. a. Explain how interest on (1) consumer credit loans, on (2) bank credit cards and on (3) installment credit may be deducted when calculating income tax.

   b. Also, how are the following treated in relation to income tax:
      loan fees;
      credit investigation fees;
      unstated interest in installment payments for educational services;
      fees charged for the privilege of prepaying a retail installment contract;
      interest on a loan for purchase of a life insurance policy?

   c. Review the complex methods allowable for deducting a portion of a service charge or flat fee as interest on a charge account.

   Resource List: See Internal Revenue Service Publication: Income Tax Deductions for Interest Expense.

C. Suggested Activities With Interviews

These activities are designed so that you will focus on different types of credit applicants' need and circumstances, including your own. Before proceeding to the activity, again decide on which case description (see p. 47) will provide you with the professional development necessary to accomplish the third objective.

In each of the following activities, assume that there is a need for approximately $500 in credit. It may be necessary for you to add more detail to the cases chosen to make it appropriate for the cost of living in your area.

1. Choose an item, by brand and model number, worth approximately $500, that would be available on an installment contract from a number of businesses in your urban area, e.g., a store in a low-income neighborhood, a discount store, and a department store. Use the chart (see p. 49). Determine differences in cost and the terms available for an eighteen month installment plan as well as the cash cost.

   a. What is the APR charged in each case? Refer to "Maximum Credit Charges Allowed in California" (in A Guide to Consumer Credit Laws). Determine whether the APR in each case is controlled by law and whether the APR charged is within the law.

   b. What are your conclusions? What would be the most effective use of credit for you?

2. If you were to pay cash for the same item selected in Activity #1, what difference would it make in the cost if you borrowed $1000.00 and then paid cash for the item i.e., if your loan was to be paid over an eighteen month period?

   a. Use the chart (see p. 50), to record specific facts for comparison among those sources available to you, such as the arrangements of a bank where you have a savings account, or a credit union, or a consumer finance (small loan) company, or a source of "ready credit," or a bank card, or a life insurance company loan.

   b. Is credit life and disability insurance required for any of these loans? How is that handled? Do you have any alternatives?

   c. Does the contract include a balloon payment? an acceleration clause? or a wage assignment possibility? What difference can these make to you?

3. If you were to purchase the same item on a revolving charge account, and made no other purchases during a three month repayment period, find out (at three different large retail outlets) whether there are differences in the total cost of the item after three months.

   Ask for a. the annual percentage rate (APR);
   b. how charges are computed i.e., by the previous balance method, the declining or adjusted balance method, or the past due balance method; and
   c. what the total cost would be by the time of the last payment.
   d. Find out the maximum length of repayment period offered.
   e. What are your conclusions? Which of these stores offers the best deal?
   f. Looking back over questions a, b, and c, what are your overall conclusions?

4. For this experience, identify one brand, model, and complement of accessories for a new auto manufactured by an American company. Visit a dealer and find out the cost of financing the car if you have a trade-in allowance of $600 on your old car as down payment. Compare the total amount to finance this automobile through the dealer, a credit union and a commercial bank. Use the chart (see p. 51), to compare the purchase conditions and costs of each of the three sources of credit. Be aware of which clients would have each of these sources of credit open to them.

a. What was the APR charged by each credit source?

b. Is there an acceleration clause, a balloon payment, a wage assignment included in any of these contracts? How might they affect the "debtor"?

c. Is credit life and disability insurance required under the contract? Must you buy this particular insurance policy? Is the cost of it included in the APR?

d. What are your conclusions? What would be the most effective use of credit, and why?

Suggested Resources

Books (for complete bibliographical reference detail, refer to Suggested Resources: Master List)

Allentuck, Andrew J., et al. Pp. 152-154.

Bailard, Thomas E., et al. Pp. 202-209.

California Department of Consumer Affairs. The Compleat California Consumer Catalog. Pp. 50-52.

Cohen, Jerome B. (1972)

Garmon, E. Thomas. Pp. 112-121.

Miller, Roger LeRoy. Pp. 123; 125; 126.

Nickell, Paulene, et al. Pp. 298.

Porter, Sylvia. Pp. 82-85; 110-115; 121-122.

Spillman, Nancy B. Pp. 59-68. (Rule of 78: pp. 65-68.)

Stillman, Richard. Pp. 64-67; 66-82.

Troelstrup, Arch W. Pp. 183-185 (credit life and disability insurance).

Wolf, Harold A. Pp. 138-142; 157-166.

Bulletins and Periodicals (for complete reference detail, refer to Suggested Resources: Master List)

Dyl, Edward A., and Michael D. Jochnk. Pp. 251-254.

Internal Revenue Service. Income Tax Deduction for Interest Expense.

Money Management Institute. Pp. 14-15; 20-21; 30-32; 38-40.

University of California Extension. Maximum Credit Charges in California.

Laws, Rules, and Law Bulletins

California Department of Consumer Affairs. A Guide to Consumer Credit Laws. See:
1. Loan Shopping Guide (chart), p. 39
2. Maximum Credit Charges Allowed in California, p. 36.
3. Methods of Computing Charge, p. 47.
4. Retail Credit Contracts Comparison Chart, p. 51.
5. Vehicle Finance Shopping Guide (chart), p. 55.

California Lay-Away Practice Law.

California Usury Law (California Civil Code Section 1916).

Fair Credit Billing Act (California)--see The Compleat California Consumer Catalog. P. 51.

Federal Truth in Lending Act, Regulation Z, 1969, and Federal Reserve Board Rule, 1973 (regarding oral APR).

Rees-Levering Motor Vehicle Sales and Finance Act (California Civil Code Section 2981, et seq.)

Three Day Cooling Off Period, California Civil Code, Section 16895.

Unruh Retail Sales Installment Contract.

Lesson 2: Managing and Using Credit Effectively

Narrative Summary

There is actually more to controlling credit costs than merely being able to determine and compare finance charges and annual percentage rates. In this lesson, you will expand upon your understanding of the 4 C's of credit from Unit 1 to know how a credit user can protect his credit report and recognize when he or she has reached a safe debt limit, as well as many other means for the effective use of credit. The activities are designed so that you will learn to identify and be able to describe effective methods for anyone using cash or sales credit.

> All activities should be submitted to and discussed with your instructor.

Suggested Activities (Independent Library Study)

A. 1. Develop a glossary to include each of the following terms used in relation to the second, third, and fourth objectives of this unit.

Assets
Credit rating
Credit bureau
Credit report
Credit investigation
Solvency

Resource List: See glossaries in Thomas E. Bailard; Sylvia Porter; and Money Management Institute.

2. Briefly list how each of the following laws relates to the objectives of this lesson.

a. California State Law (AB 181-Civil Code Chapter 332, Section 1812.30)
b. Consumer Credit Reporting Agencies Act (California)
c. Federal Fair Credit Reporting Act
d. Federal Equal Opportunity Act.

Resource List: A Guide to Consumer Credit Laws.

B. This section focuses on knowledge and comprehension related to the second objective.

1. How do the following, age group, income level, and residential location in general affect whether or how you use credit cards, which bank credit services are open to you, the relative cost of credit needed quickly and over time? Answer on a separate page.

Resource List: See Sylvia Porter; Arch W. Troelstrup; Alan R. Andreasen.

2. Write a comprehensive list of specific guidelines for the effective use of credit. Do not repeat guidelines from Unit 2, Activity B, questions #4 and 6. Consider typical cases (see p.47), to improve the practical quality of your list. Answer on a separate page.

Resource List: See Sylvia Porter, pp. 82-85; United California Bank; Bank of America, Consumer Information Reports #3, 4, and 7; Frances L. Feldman; Alan R. Andreasen.

C. This section focuses on knowledge and comprehension related to the third objective.

1. a. What items of information are available to creditors from a credit bureau?

b. How do credit bureaus communicate with one another?

Resource List: See Robert H. Cole; Jerome B. Cohen (1975).

2. a. Explore why and how married persons (and widows, widowers, and divorced persons) should question their individual credit ratings. What actions can they take to get and maintain the best possible credit ratings with the least inconvenience to themselves? Respond on a separate page.

Resource List: See three pamphlets on credit for women; Jerome B. Cohen.

b. What laws describe the rights of credit users regarding their billing, their marital status, their sex, and credit reports?

c. How can each of these credit rights directly or indirectly affect credit costs for credit users?

Resource List: See Sylvia Porter; Michelle D. Stratton, et al; A Guide to Credit Laws; The Compleat California Consumer Catalog; Women and Credit.

3. If you, as a consumer credit user, believe that you have been defrauded or unfairly treated in any deal involving sales or cash credit, and you have been unable to resolve the problem where you did business, where can you find a listing of public and private agencies where you can voice your complaint and get help?

Resource List: See A Guide to Consumer Credit Laws.

Suggested Activity With Interview

4. Make an appointment with the manager of a credit bureau. Prepare the interview in advance pertaining to:

a. the effect the Fair Credit Reporting Act has had on their business;
b. the circumstances that would allow you to see your own credit record with and without cost to you;
c. what kinds of data on a client's record creates frequent controversy;
d. how a client, disagreeing with evidence on his or her record, submits a statement of fact as he or she sees it;
e. whether or not a client could have a different record or no record at another credit bureau in the same or a different urban area.

D. This section focuses on knowledge and comprehension related to the fourth objective.

Explain several means to check how safe your debt load is, that is, at what point you are becoming financially vulnerable as a credit user. What conditions will affect the validity of these means in individual cases?

Resource List: See Roger LeRoy Miller; Arch W. Troelstrup; Gwen Bymers; Sylvia Porter.

Suggested Resources

Books (for complete bibliographical reference detail, refer to Suggested Resources: Master List)

California Department of Consumer Affairs. The Compleat California Consumer Catalog. Pp. 56; 58; 59; 62.

Cohen, Jerome B. (1975). Pp. 168-174; 184; 185; 212; 218-222; 234-238.

Cole, Robert H. Chapters 13-14.

Feldman, Frances L. Pp. 380-381.

Garmon, E. Thomas. P. 124.

Miller, Roger LeRoy. Pp. 136; 140-142.

Nickell, Paulena, et al. P. 229.

Porter, Sylvia. Pp. 82-85; 87-89; 128-130; 1035-1037.

Spillman, Nancy B. Pp. 58-59; 68-72.

Stillman, Richard. Pp. 43-45; 86.

Troelstrup, Arch W. Pp. 172-173; 193-194.

Bulletins, Pamphlets, and Periodicals (for complete reference detail, refer to Suggested Resources: Master List)

Andreasen, Alan R. Pp. 179-189.

Bymers, Gwen. "A Financial Check Up."

California Department of Consumer Affairs. Credit for Women.

First National City Bank. Borrowing Basics For Women.

Stratton, Michelle D., and Nancy Peterson. Women and Credit.

Laws, Rules, and Law Bulletins

California Department of Consumer Affairs. A Guide to Consumer Laws. Pp. 26, 28, 56 (where to take complaints).

California State Law (AB 181 - Civil Code Chapter 332, Sections 1812.30), State Capitol Legislature Bill Room. No. 1149 Sacramento, California, 95814. (Women's Rights)

Consumer Credit Reporting Agencies Act (1976), California Civil Code Section 1785.1, et seq. Federal Fair Credit Reporting Act (amendment to Truth in Lending) (1971).

Federal Equal Credit Opportunity Act (1974), Regulation B (1975) Board of Governors, Federal Reserve Bank (San Francisco or Los Angeles).

Progress Test--Your instructor may select randomly a number of the activities of this unit as a progress test for it. If you have accomplished the objectives of Unit 3 adequately, proceed to Unit 4.

UNIT 4

SOLVING THE PROBLEMS OF OVEREXTENDED CREDIT

Objectives

The MATCHE student will be able to describe various methods for solving problems of overextended credit.

Given a family's goals, standards, and financial resources, and the fact that it is overextended on credit, the MATCHE student will be able to describe an alternative method by which the family can work toward solving its problem of overextended credit.

Given a family's overextended debt problem, the MATCHE student will be able to help the family comprehend how its managerial system can be strengthened to improve the family's satisfaction in relation to its goals and standards.

Overview

There are several ways of solving overextended credit problems. These types of problems must be recognized and a solution worked out and followed. The purpose of this unit is to identify methods for solving overextended credit problems while considering the goals and standards of particular family life styles.

Your task in working with individuals and families who have overextended their use of credit can be a serious and a difficult one. You may not feel complete satisfaction with the study of Unit 4 in reference to all the actual cases you may encounter in professional work as teacher or counselor. This unit opens up new objectives, going beyond the scope of this Module, Family and Individual Credit Management, for at least two additional courses: one focusing on the actual management of income and another focusing on the rights and procedures for persons requiring bankruptcy.

Lesson: Solving the Problems of Overextended Credit

Narrative Summary

What if you just do not have the income or resources to meet demands and also are obligated to several creditors? What will creditors do in such cases? What if the situation is temporary? Or, what if it is more serious, with no income? Who experiences these overextended debt problems? Can some families anticipate a rational approach to such problems in terms of what they have wanted out of life? Where can individuals and families find alternatives in such circumstances? Will some individuals and families have to face bankruptcy? If so, what should they do? In this unit, resources and activities have been selected and designed to enable you to recommend an alternative method to individuals or families by which they can initiate resolution of their debt problem.

> All activities should be submitted to and discussed with your instructor.

Guide - Unit 4

As a first step in accomplishing the objectives of this unit, review the literature in the Resource List, particularly those authors identified at the end of each question in section B. Use the questions as a progress check to determine gaps in your knowledge and comprehension regarding the unit objectives. Then carefully plan interviews and contacts suggested as activities on page 44. Your interviewing skill may reflect an important image of your potential as a professional to persons in business and law and will effect the time/cost benefits for both participants. These activities are designed to develop abilities to apply knowledge realistically to specific situations.

Suggested Activities (Independent Library Study)

A. 1. Develop a glossary to include each of the following terms used in relation to the objectives of this unit:

Attachment (property)
Attachment (wages)
Claim
Collection agency
Composition arrangement
Consolidation of debt
Consumer Credit Insurance
Consumer Credit Counseling Service

Deficiency judgment
Delinquent
Extension arrangement
Garnishment
Lawsuit
Lien
National Foundation for Consumer Credit
Obligation
Personal Bankruptcy: straight bankruptcy and Chapter XIII of Federal Bankruptcy Act
Prorator
Repossession
Small Claims Court
Wage Assignment
Wage Earner Plan

2. Briefly list how each of the following laws relates to the objectives of this unit:

   a. California Attachment Law
   b. Collection Agencies Act
   c. Federal Bankruptcy Act including Chapter XIII
   d. Federal Consumer Credit Protection Act
   e. Private Investigator and Adjustor Act.

B. 1. Review examples of personal financial statements or net worth statements. How may these be used to help an overextended debtor get out of debt?

   Resource List: See Richard J. Stillman; Bank of America, Consumer Information #5.

2. Where can seriously overextended debtors get economic advice in handling their financial problem? What questions should be raised before using any program of resolution that is offered?

   Resource List: See Money Management Institute; Frances L. Feldman.

3. When the case is so extreme that all roads to solvency are blocked, where does the overextended invididual or family seek relief?

   Resource List: See Money Management Institute; Frances L. Feldman; Jerome B. Cohen (1975).

4. Tabulate, with minimum detail, what is involved when the overextended debtor:

   a. uses the help of a non-profit Credit Counseling Service;
   b. applies for Chapter XIII of the Federal Bankruptcy Act, the Wage Earner Plan;
   c. files for straight bankruptcy;
   d. used the services of a prorator.

   In the tabulation, use these headings:

   who can be helped
   cost of service
   effect on harrassment
   effect on possessions (secured and unsecured debts)
   effect on interest charges on debts
   effect on wages and other compensation
   effect on employment
   effect on credit rating and time period
   obligations removed
   obligations not removed

   Resource List: See Norbert J. Mietus; Money Management Institute; Roger LeRoy Miller; Ralph Warner, et al.; Sidney Sherwin; Jerome B. Cohen (1975); Frances L. Feldman; Arch W. Troelstrup.

5. a. If you are in a vulnerable credit position, any financial emergency can push you into the "pit of despair." Some emergencies can be controlled by a debtor within a few weeks and, during this difficult period, bills may become overdue. What actions should one take to minimize the effect on his or her credit rating?

   b. If the emergency described in 5 a, lasts a little longer than expected but is recognized as temporary, what sequence of actions would you recommend before moving toward the Wage Earner Plan?

   Resource List: See Money Management Institute; Norbert J. Mietus; Irma H. Gross, et al.; Perry B. Hall; Frances L. Feldman; Margery K. Schiller.

6. This activity focuses on the second and third objective of this unit.

   Review the characteristics of overextended families and the entire section "Planning Adapted to Families with Different Family Goals," pp. 561-576, in Irma H. Gross, E. Crandall, and M. Knoll, Management for Modern Families. Review pp. 39-49 in Frances L. Feldman's report on the United States consumers' use of credit, problems of debt repayment, and effects on the quality of life; and Chapter 14, pp. 352-384, "Design for Living in Today's Money World," in The Family in Today's Money World.

   a. Describe how these authors believe an overextended family must act if it is going to maintain its goals and standards as much as possible, even with severely limited financial resources.

   b. Creatively develop applications of managerial strategies (such as facilitating, checking, sequencing in planning, and others) useful in the control of debt and appropriate for any of the individual or family case descriptions (see p. 47).

7. Would you recommend the use of a consolidation loan to a family with serious debt problems? If not, why not? If so, under what circumstances, and why would it be beneficial?

Resource List: See Arch W. Troelstrup (1974), pp. 191-192.

Suggested Activities With Interviews

1. If you have accomplished most of the objectives of this module, contact the manager of a non-profit Consumer Credit Counseling Service in your area. Volunteer your help in order to learn how the program works. Ask about the income management problems counselors face with their clients and the nature of the guidance they give. Ask what educational services are provided clients and/or the public.

   Consider how you as a home economist would present an educational service to help interested clients improve skills in implementing their goals and values as they use their limited resources. As a home economist, what special knowledges and skills do you have to offer as a counselor to the client with serious debt problems?

2. Repeat Activity #1 in whole or in part as appropriate, by contacting others involved with finance counseling of overextended debtors, e.g., an attorney with a legal aid bureau, an attorney focusing on Chapter XIII clients; a family service agency; or a finance counselor with a credit union.

Suggested Resources

Books (for complete bibliographical reference detail, refer to Suggested Resources: Master List)

Aaker, David A., et al. Pp. 348-349; 371-372; 374.

Beldon, George. Entire book. (The Harrassed Bill Payer)

California Department of Consumer Affairs. The Compleat California Consumer Catalog. Pp. 55; 62-63 (complaints).

Caplovitz, David. Entire book. (Serious debt problems)

Cohen, Jerome B. (1975). Pp. 214; 216-218; 201 (repossession).

Cole, Robert H. Chapter 16 (collection practices).

Credit Counseling Centers, Inc. Entire book.

Derwin, Brenda. Entire book of cases typical of serious debt problems.

Feldman, Frances L. Pp. 39-49; 346-351; 352-384.

Gross, Irma H., et al. Pp. 559-576. Chapter 9 (Planning); Chapter 10 (Implementing Goals and Plans).

Hall, Perry B. Entire book. (Family Credit Counseling)

Kaplan, Melvin James. (regarding Chapter XIII)

Mietus, Norbert J., and Bill W. West. (regarding personal law)

Milberg, Aaron S., and Edmond B. Diechant. (regarding bankruptcy)

Miller, Roger LeRoy. Pp. 144-147.

Sherwin, Sidney. (regarding serious debt problems)

Slavick, John, and Robert E. Burger. (regarding personal bankruptcy)

Troelstrup, Arch W. Pp. 185-187; 191-192.

Warner, Ralph, and Peter Jan Honigsberg (regarding collections)

Bulletins and Periodicals (for complete reference detail, refer to Suggested Resources: Master List)

Courtless, Joan C. Pp. 22-24.

Lane, Sylvia. Pp. 24-40.

Ryan, M. E., and E. Scott Maynes. Pp. 107-126.

Schiller, Margery Kabot. Review of a thesis.

United California Bank. Number 4. Straight Talk from UCB.

Vago, Steven. Pp. 7-20.

Waddell, Frederick E. Pp. 31-45.

Laws, Rules, and Law Bulletins

California Department of Consumer Affairs. A Guide to Consumer Laws. Pp. 5-11; pp. 14-18.

California Attachment Law (California Code of Civil Procedure, Sections 537, et seq.; 690 et seq., and 1237 et seq.)

Collection Agencies Act (California Business and Professions Code, Section 6850, et seq.)

Deneberg, Herbert H. A Consumer Guide to Bankruptcy or Going Broke in Order to Become Solvent: The Federal Bankruptcy Law in Brief. Harrisburg, Pennsylvania: Pennsylvania Insurance Department, 1975.

Federal Bankruptcy Act. United States Code Title 11, Chapter I Through Chapter VII; Chapter XIII Wage Earner's Plan.

Federal Consumer Credit Protection Act (15 United States Code Section 1601-1681 t. Chapter 41) 1968 and Regulation Z (12 CFR 226) 1969. Truth in Lending, Regulation Z Interpretation of Board of Governors, Federal Reserve System. (See Suggested Resources: Master List: Barkeley Clark.)

Private Investigator and Adjustor Act (California Business and Professions Code, Section 7500, et seq.)

Uniform Commercial Code. (See Suggested Resources: Master List: Barkeley Clark.)

Progress Test--Your instructor may select randomly a number of the activities of this unit as a progress test for it. If you have accomplished the objectives of Unit 4 adequately, make arrangements to take the posttest for the Module.

Exhibit 1: Six Case Frameworks

NOTE: See Resources List below these cases for sources providing background information about credit users such as: teenagers, the elderly, the low-income family, the family on welfare, women, the overextended debtor. For the overextended debtor, see also Unit 4, Resource List.

Credit Cases 1 through 5 are designed to require sales or cash credit to the extent of $500. Case 6 requires $1000 or more cash credit.

1. You are a widower, age 70, on a gross income of $10,000 from a pension and Social Security income. You rent an apartment at $250 monthly in an urban area and have no children. You have a reputation for slow payment of bills in the last six years when your wife paid the bills. Now you need to replace a major appliance on credit. You own a used car and must use it for transportation.

2. You have musical talent and are in your late teens. You want a new musical instrument. You have a part-time job paying $60.00 per week; you and your younger sister are dependent on your mother's income, which is about $14,000 net.

3. You are on welfare. However, as a young father you have shown responsibility by seeking retraining for a job and ESL classes to help you improve your English. You have been assured employment after the training program with the Pacific Telephone Company. You want a color television set for your pregnant wife and school-age child. Your only other debt at the moment is with the corner grocery store.

4. You and your husband together earn $25,000 and are unable to pay your bills for purchases on credit. You have sought help with the problem at the local Consumer Credit Counselors. Until now you have been able to keep up with household operation costs, the mortgage, and taxes. Your immediate problem is how to pay the recent mortgage requirement.

5. You have been an extravagant single person and live alone without dependents. Your extravagance was seriously high during the recent holiday season. Now you need a new washer/dryer set in your rented home. While you prefer to pay your bills for these by credit card without interest charges, you have decided to explore the possibilities for paying the cost over three or four months in order to buy the brands you want.

6. You are a thirty-six year-old woman, divorced, with no children. You need $1000 to cover relocation costs one hundred miles from where you had been living with your husband. The money you borrow will be used toward moving costs, a new television set, and a recent dental bill in the city where you had been living. You have been employed and will continue with the same company in the new location at an annual salary of $12,000, take-home pay. During this readjustment period, you feel that it is unwise to use your limited savings, which you may later need in an emergency. As you pay off this loan, you feel that your payments can be no more than $60.00 per month.

   In the past your credit rating was poor due to your husband's poor record of paying bills. (In using this case, try it also with all roles changed from male to female throughout the case).

Resource List:

Books

David A. Aaker. Pp. 163, 346-348, 369-371, 395-398.
David Caplovitz. Pp. 15-17, 24-25, 49-55.
Jerome B. Cohen (1975). Pp. 15-17.
Irma H. Gross, et al. Pp. 559-562.
Laurence P. Feldman, et al. Pp. 230-244.
Frances L. Feldman (life styles). Most of book.
Alan R. Andreasen. Entire book.
Arch W. Troelstrup. Pp. 192-93, 173 (the "excessively indebted").
Andrew J. Allentuck, et al. Pp. 168-170.

Periodicals

Alan R. Andreasen; Thomas F. Carghill; and Milton J. Huber and Robert O. Herrmann.

Bulletins

Jean S. Bowers; Alvin E. Levin; University of the State of New York; the Urban Coalition.

EXHIBIT 2

RETAIL CREDIT CONTRACTS SHOPPING GUIDE

	A	B	C
Name of Lender			
Address			
Telephone Number			
Cash price			
Amount of the downpayment			
Amount of the unpaid balance			
Annual Percentage Rate			
Method of interest computation used			
Total amount financed			
Amount of the finance charge			
Amount of time given before a finance charge is imposed			
Number of installments			
Amount of each installment			
Amount of insurance			

Source: California Department of Consumer Affairs. A Guide to Consumer Credit Laws 1976, p. 51

EXHIBIT 3

LOAN SHOPPING GUIDE

Consumers shopping for loans either in person or by telephone should always make sure they are given the annual percentage rate as required by law so they can make true comparisons between lending institutions. Also, an attempt should be made to bargain for a lower rate than is initially offered, as loan costs are often flexible. The following questions will be helpful in comparing the terms and costs of loans.

	A	B	C
Name of lender			
Address			
Telephone number			
Amount of loan			
Length of loan			
Annual percentage rate (APR)			
Interest computation method			
Finance charge			
Date finance charge begins			
Number of payments			
Total of payments			
Charges for late payments			
Collateral or security required			
Credit insurance required			

Source: California Department of Consumer Affairs. A Guide to Consumer Credit Laws 1976, p. 39
Sacramento, California.

EXHIBIT A

VEHICLE FINANCING SHOPPING GUIDE

Since vehicle financing arrangements can vary considerably, it is to the consumer's advantage to compare the terms and costs of loans or leasing arrangements. In particular, consumers should compare alternative sources to dealership financing.

	A	B	C
Name of Lender or Dealer			
Address			
Telephone Number			
PURCHASE			
Model of Vehicle			
Cash Price			
Down Payment			
Trade-in Allowance			
Finance Charge			
Annual Percentage Rate			
Total Amount Financed			
Monthly Payments			
Length of Contract			
Late Payment Penalty			
Prepayment Penalty			
Warranty Length			
Registration Fees			
Insurance Costs			
LEASE			
Model of Vehicle			
Original Value			
Trade-in Allowance			
Deposit or Other Cash Payment			
Monthly Payments			
Total of Monthly Payments			
Annual Percentage Rate			
Length of Lease Period			
Value of Vehicle at End of Lease Period			
Prepayment Penalties			

Source: California Department of Consumer Affairs. A Guide to Consumer Credit Laws 1976, p. 55

Suggested Resources

BOOKS--MASTER LIST

Aaker, David A., and George S. Day, eds. Consumerism: Search for the Consumer Interest. New York: The Free Press, 1971.

Allentuck, Andrew J., and Gordon E. Bivens. Consumer Choice: The Economics of Personal Living. San Francisco: Harcourt Brace Jovanovich, 1977.

Andreasen, Alan R. The Disadvantaged Consumer. New York: The Free Press, 1975.

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Belden, George. Strategies for the Harrassed Bill Payer. New York: Grossett and Dunlap, 1974.

California Department of Consumer Affairs. The Compleat California Consumer Catalog. Sacramento: Department of Consumer Affairs, 1976.

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Porter, Sylvia. Sylvia Porter's Money Book. New York: Doubleday and Company, 1975.

Saalback, William F. Managing Your Money and Credit. Palo Alto, California: Laidlow Brothers, 1974.

Sherwin, Sidney. What to Do When Your Bills Exceed Your Paycheck. Englewood Cliffs, New Jersey: Prentice-Hall, 1974.

Slavick, John J., and Robert E. Burger. The Simplified Guide to Personal Bankruptcy. New York: Crown Publishers, 1975.

Spillman, Nancy B. Consumers and a Personal Planning Reader. San Francisco: West Publishing, 1976.

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United California Bank. (UCB) "How to Get Credit," No. 3. "Will Your Banker Bite You When You Ask for a Loan?", No. 6, in Straight Talk from UCB. Newsprint series available. Los Angeles: United California Bank, Terminal Annex, 1976.

United California Bank. "What to Do When You Can't Pay Your Bills." Number 4, in Straight Talk from UCB, 1976.

United States Department of Agriculture. Consumers' Credit Guide., No. 0100-02688. Washington, D.C.: Government Printing Office, 1972.

University of California Extension. Maximum Credit Charges in California. Berkeley.

University of the State of New York. Consumer Problems of the Poor. Albany, New York: The State Education Department, Bureau of Secondary Curriculum Development, 1974.

Vago, Steven. "Wage Garnishment: An Exercise in Futility Under Present Law." Journal of Consumer Affairs, 2: 7-20, 1968.

Virginia Polytechnic Institute and State University. Credit and the Consumer. Blacksburg, Virginia: Extension Service, 1977.

Waddell, Frederick E. "A-Borrowing, A-Sorrowing." Journal of Consumer Affairs, 4: 31-45, 1970.

Titles of Technical Periodicals:

Consumer Credit Leader
Credit
Credit and Financial Management
Credit Management Yearbook (New York: National Retail Merchants Association)
Credit World
Journal of Consumer Credit Management
Management
Savings and Loan News

Titles of Popular Periodicals (with credit information and comment)

Better Homes and Gardens
Business Week
Changing Times
Consumer Reports
Money
U.S. News and World Report

EXHIBITS USED IN THE MODULE ACTIVITIES

1 Six Case Frameworks--Cash or Sales Credit

2 Retail Credit Shopping Guide (Department of Consumer Affairs, p. 51)

3 Loan Shopping Guide (Department of Consumer Affairs, p. 39)

4 Vehicle Financing Shopping Guide (Department of Consumer Affairs, p. 55)

Reference is made to the following exhibits which may be secured from local banks and businesses:

5 Bankamericard Account Application

6 Master Charge Account Application

7 Credit application (for automobile credit purchase 3/77 new)

8 Macys' credit card application

9 Sears' credit card application

#10 Sears' monthly statement

INTERVIEWING (from which techniques and considerations can be derived)

Gorden, Raymond L. Interviewing: Strategy, Techniques, and Tactics. Homewood, Illinois: Dorsey Press, 1975.

SOURCES OF CREDIT APPLICATION AND AGREEMENT FORMS AND MONTHLY STATEMENTS

Cohen (1975): Monthly statement, p. 165.

Continental Bank, Wise Use of Buying Power. (See list of Educational Kits): Wage Assignment, p. 30, and many other forms.

Department of Consumer Affairs, A Guide to Consumer Credit Laws:
Disclosure on a Promissory Note for non-installment Credit, p. 65.
Disclosure Statement of a Loan, p. 66.
Notice of Right of Rescission, p. 67. (For more detail see Clark, Barkeley, p. 21 (c)--(See Master Book List)
Retail Sales and Installment Contract and Security Agreement, p. 68.

Miller (1975): Typical Net Worth Statement, p. 139.
Chart Determining Safe Debt Load, p. 136.

Stillman (1975): Credit Union Loan Application, p. 74.
Bank Loan Application, p. 76
Personal Finance Statement, pp. 78-79.

CONSUMER CREDIT EDUCATION--(Low Reading Level)

Be Informed Leaflets--Unit 1, Part 5. Learning to Live with Credit. New Readers Press, (Laubach Literacy) 1112½ E. Fayette Street, Syracuse, New York 13210. 40 pages. For price on quantity orders: Box 131, Syracuse, New York 13210.

Goble, Dorothy Y. You and Your Money. Austin, Texas: Steck-Vaughn Company, 1967. 58 pages.

Institute of Life Insurance. Making the Most of Your Money. Institute of Life Insurance, Educational Services, 277 Park Avenue, New York, N.Y. 10017, 1974. 44 pages.

CONSUMER CREDIT EDUCATION--(Other helpful resources)

American Bankers Association
Banking Education Committee
90 Park Avenue
New York, N.Y. 10016

Associated Credit Bureaus
Director of Public Relations
6767 Southwest Freeway
Houston, Texas 77036

National Consumer Finance Association
Education Services Division
1000 16th Street
Washington, D.C. 20402

National Foundation for Consumer Credit
1819 H. Street, N.W., Suite 510
Washington, D.C. 20006

FILMS

In the Box, 1976, color sound film 13 minutes. Studio City, California: Film Fair Communications.

Put Your Money Where Your Goals Are, 1976, 27 minutes. Washington, D.C.: National Consumer Finance Association. (Loan copies available to schools from association. Sterling Films, 6644 Sierra Lane, Dublin, California 94566.

To Your Credit, 1975, color film, 18 minutes. Free loan. Minneapolis, Minnesota: General Mills, Consumer Center Film Library.

Your Credit is Good, 1972, 16 mm sound, color, 15 minutes. Evanston, Illinois: Journal Films.

FILMSTRIPS, CASSETTES, AND TRANSPARENCIES FOR ADULT USE

Be Credit Wise, 1970, 87 frames, color. Filmstrip with cassette. Chicago, Illinois: Money Management Institute, Household Finance Corporation, Prudential Plaza.

So You Want to Use Credit, set of 2. Sound. Washington, D.C.: Changing Times Education Service.

EDUCATIONAL KITS AND GAME

Classroom Money Management Kit, 1973. Multimedia Kit which includes Teachers Guide; 4 cassettes with eight 21 minute lessons on various aspects of consumer credit; Suggested Guidelines for Consumer Education K-12; Everybody's Money; Personal Money Manager (reprint) Scholastic Magazine: "Smart Saving, Borrowing, Budgeting", Board Game, and "Managing Your Money." Madison, Wisconsin: CUNA Mutual Insurance Society.

Continental Illinois National Bank and Trust Company of Chicago,
Wise Use of Buy Power, Leader Guide, 1975, Work Book, 1971.
Accepting Credit Responsibility, Teacher Guide, 1972, Student Problem Book, 1972.
Managing Personal Income, Teacher Guide, 1972, Student Problem Book, 1972.
Chicago, Illinois: Continental Bank.

Low Income Consumer Education Project, 1975, 15 filmstrip and 15 cassette series of which two are on credit. Average 10 minutes each. University Park, Pennsylvania: Extension Visual Aids, Pennsylvania State University.

GAME: The Name of the Game is Credit, 1975. Simulation game with equipment for 15 students. Fort Atkinson, Wisconsin: NASCO.

MODULE PRE/POSTTEST

Family and Individual
Credit Management

Student_____

Instructor_____

Date_____

Instructor:	You may want to pre- or posttest one unit of this module at a time. You will find each of the questions and question parts categorized by units in the answer key. This will assist you in organizing a test for a student's particular objectives.

Student:	Before attempting the pretest, read the module objectives and overview. This pre/posttest, if taken in its entirety, will test your knowledge of the information presented in this module. You need study only those units that are prescribed on the basis of test results. It is suggested that you consult the narrative summary, activities, and resource list for each unit, regardless of whether the unit activities are required.

1. Secure from the instructor a Sears Sample Credit Application. Consider the reasons for requesting the information in each section of the application. Write in each section the appropriate criterion or reason by number i.e. #1 = ability to pay and #2 = willingness to pay.

2. Evaluation of an applicant's credit depends on many favorable and unfavorable characteristics of the applicant's credit antecedents related to some nine or more factors.

   Fill in the "favorable" and "unfavorable" information columns in the chart below to show the extent of your knowledge of the several components related to each of the five factors listed on the left that affect a creditor's evaluation of an applicant.

   You may make your own chart to allow more space. Be careful not to include any characteristics which creditors legally cannot consider in their evaluation.

Pre/posttest (continued)

Factors Evaluated	Favorable Information	Unfavorable Information
a. Residence		
b. Telephone		
c. Debt Record		
d. Public Record		
e. Personal Characteristics		

Pre/posttest (continued)

3. Identify in the left column whether each statement is true (T) or false (F). Do not guess.

a. _____ The peak of your capacity to pay debts is reached when your obligations equal 25 percent of your after-tax income, not including your home mortgage.

b. _____ A credit bureau does not normally compile an investigative credit report for a creditor.

c. _____ The difference between a demand loan and a time loan of the single payment type is usually about one year.

d. _____ The typical APR charged on a credit card loan is about the same as on a check loan.

e. _____ There are three methods that may be used to determine the APR as required by the Consumer Protection Act.

f. _____ The first thing to do when you cannot pay your bills is to stop using credit.

g. _____ The declining balance method of calculating finance charges on a charge account is the most favorable method for the credit user.

h. _____ Any deposit you have at a bank where you borrow is subject to seizure without notice should you fail to make loan payments, but this may be changed if you have a justification.

i. _____ A loan from a life insurance company must be paid off but the time allowance is usually longer than for bank loans.

j. _____ A rainy day fund of one month's pay is considered ample as a buffer against most emergency credit situations.

Answer 4 a. or 4 b.

4. a. Develop a comprehensive list of twenty different "do's" and don't" regarding the use of sales and cash credit.

b. Develop a comprehensive list of means to control the costs of credit.

In 4 a. or 4 b. take into consideration the possibility that many users of your lists will be women, families on low incomes, or elderly consumers on fixed income; others will be beginning families on two incomes with high "need" for credit.

Pre/posttest (continued)

5. Describe in each case a typical circumstance where, in a consumer credit situation:

   a. A signed note would be used as a condition for credit.

   b. A deficiency judgment would be legal as a condition on an installment contract in California.

   c. A right of rescission would pertain to a credit sale.

   d. A woman may find she must reapply for credit.

   e. A plan to enter the Army may affect the availability of credit.

   f. The consumer benefits from credit with no finance charge.

   g. It is wise to use "ready" credit.

   h. An overextended debtor acted wisely in a sequence of steps to minimize ensuing financial problems.

   i. A seriously overextended debtor would be wise to choose the Wage Earner Plan rather than straight bankruptcy.

Pre/posttest (continued)

6. a. If you want to determine the cost of credit and you are given the APR, what additional facts would you need to know about the case?

   b. What formula would you use to calculate the cost of credit from these facts? Present the formula in a clearly usable form or describe precisely where to find the formula at no cost to the user.

   c. If you are in the 30 percent income tax bracket, describe how to calculate the actual interest paid for a typical consumer loan of $300 paid off in one year. The stated rate is an APR of 12 percent and inflation in the year of purchase is about 6 percent.

7. Explain significant facts about the following:

   a. Acceleration clause

   b. Pyramiding, as used in a credit situation

   c. Collateral

   d. Cosigner

   e. Debt consolidation

Pre/posttest (continued)

f. Wage assignment

g. Maturity date

h. Retail installment contract and security agreement

i. The major requirements under Truth in Lending Act and Regulation Z

Pre/posttest (continued)

8. List as many sources of getting cash credit as you can in the approximate order of cost for credit from the lowest to the highest cost. Use the left column in the chart below for your list. In the right column, list by code (A,B,C,D, etc.) all of the persons taken from the "coded list" who would be the most likely to get credit from each of the sources on your own list.

"Coded list" of persons

A. The upper-income family with a good credit rating.
B. The solvent union laborer.
C. The elderly pensioner with a small savings account held for emergency use only.
D. The unskilled laborer with a steady income of $6000.
E. The overextended debtor on any income level.
F. The overextended debtor recently unemployed.
G. The affluent family with employment in expanding industry.
H. The recent college graduate with beginning employment.
I. The undergraduate employed part time.

List of Sources of Cash Credit in Ascending Order of Cost of Credit	All Persons Most Likely to Get Credit from This Source
Lowest Cost	
1.	
2.	
3.	
4.	
5.	
6.	
Highest Cost	
7.	

Return this test to your instructor for evaluation

ANSWER KEY
MODULE PRE/POSTTEST

Family and Individual Credit Management

Instructor:	Do not reproduce this page in students' booklets. You must retain it for grading and prescriptive purposes. Answers will vary with individuals. A preferred response might be similar to the answer presented.

U-1 1. See E. Thomas Garmon, p. 123.

U-1 2. See Arch W. Troelstrup, p. 182 (1974), and consider changes in recent laws.

3. True-False questions

U-3	a. F	U-3	e. T	U-2	i. F
U-1	b. T	U-3	f. T	U-3	j. F
U-3	c. F	U-2	g. T		
U-3	d. T	U-2	h. F		

U-3 4. a. Such lists are easily found in most chapters on cash or sales credit, e.g. Sylvia Porter, pp. 82-83, and Harold A. Wolf, pp. 132-133.

U-3 b. Such a list is found in Sylvia Porter, pp. 120-121.

U-1 5. a. When you sign an agreement promising to repay in a specified time or upon demand and accept terms written in the note regarding such things as early payment, default, and finance charges.

U-3 b. If you buy an auto on an installment contract and default, the seller has the right to repossess the auto, sell it, and collect the difference (deficiency) between the sale price and the amount that was owed.

U-1 c. Under certain circumstances, you can cancel a contract without penalty in California within three business days, e.g., a door-to-door sale of a home improvement contract. See also rights of minors if sold a contract.

U-1 d. If she became divorced and has relied solely on her husband's income and the community property.

U-1&4 e. A banker may deny an unsecured loan because if you are in the Army you are a federal employee and your wages cannot be attached.

U-3 f. If you have a retail or gas credit card and pay the entire bill within the billing period.

U-2 g. If you spot a bargain where the savings is greater than the dollar cost of the short-term interest or if an emergency arises on a weekend and/or you are away from home.

U-4 h. The debtor (1) stopped using credit cards; (2) cut back on daily living costs for transportation, utilities, clothing, upkeep, household repairs, and food, in approximately this order, depending on what is most essential, and enough to enable some money to be available to pay off debts; (3) estimated how best to pay off debts with limited assets; (4) called creditors almost immediately to explain reason for non payment and asked for reduced payments to be allowed over an extended period of time without further penalty or consulted Consumer Credit Counseling services for advice. Unessential items purchased on credit may be returned to the merchant in some cases, under certain contract conditions, and no further deficiency is due.

U-4 i. If the Consumer Credit Counseling Service could not put him or her on a plan with his or her creditors even if he or she was willing and able to control spending and learn to budget income, then possibly the Wage Earner Plan would be more beneficial for this person than straight bankruptcy.

U-3 6. a.
- Number of payment periods in one year
- Number of scheduled payments
- The cash price or dollar value of loan
- Dollar finance charge

U-3 b. Annual Percentage Rate (APR) =

$$\frac{2 \times (\text{number of pay periods per year}) \times (\text{dollar cost of credit})}{(\text{cash price}) \times (\text{number of scheduled payments} + 1)}$$

Therefore, $\frac{\text{Dollar Cost of Credit}}{}$ =

$$\frac{\text{APR} \times (\text{cash price}) \times (\text{number scheduled payments} = 1)}{2 \times (\text{number pay periods per year})}$$

U-3 c. If the loan of $300 is borrowed at 12 percent APR, then interest is $36 per year and the total cost is $336; payments will be $\frac{\$336}{12}$, which equals $28 per month.

This $36 interest normally would be charged with income tax if it were not spent only to pay interest. If the borrower itemizes deductions and is in the 30 percent income tax bracket, he saves 30 percent of $36 income tax, i.e., $10.80. Consequently, his or her real cost of interest on the $300 loan is $36-$10.80 = $25.20.

In addition, if inflation in this year is 6 percent and the person waits to buy at the end of the year (if the price stays constant), then the worth of the $300 is only $282 ($300-$18). You might say he or she is saving another $9.00's value, on the average, by buying on installment credit. This could then be included in the rate savings above.

This calculation takes into account neither the cost of risk in borrowing nor the value of savings interest had the money been put into a savings account instead of into the interest charges on contract.

U-1 7. a. Acceleration clause: A provision allowing the creditor to ask that all future principal installments be paid at once if one or more installments have not been paid when due.

U-3 b. Pyramiding: A term used frequently by creditors but not yet in the literature. It refers to some borrowers who borrow more than enough money to pay a debt or to pay cash for an item and then borrow a little more again than the first time, and so on as debts are paid off. This is encouraged by some creditors willing to take risk. Frequently such borrowers continue to pyramid their borrowing until they are heavily overextended.

U-1 c. Collateral: Anything of value which you own and against which you may borrow money, for example, stocks, bonds, real estate, and savings account passbooks.

U-1 d. Cosigner: One who agrees to pay the debt if the credit user does not pay.

U-4 e. Debt consolidation: To put together several financial obligations under one agreement for an extra finance charge.

U-1 f. Wage assignment: An agreement signed by the credit user to permit the creditor to collect a certain portion of his wages from his employer should he fail to act on the terms of the contract.

U-1 g. Maturity date: The agreed upon due date when final payment on a cash loan or installment contract is due.

U-1 h. An agreement in writing between the debtor and creditor which allows the debtor to receive goods and services at the time of purchase but allows the creditor to retain title to the merchandise until payment is completed.

U-1&3 i. Truth in Lending Act and Regulation Z: Requires disclosure of amount financed, all charges individually itemized, true annual percentage rate, the number amount and dates of payments, when the finance charge begins to accrue, total finance charge, description of security, penalty for prepayment, amount and method of computing delinquency charge, sum of all payments.

Applies to all consumer credit notes and contracts, open and closed end; protects consumer from illegal use of credit cards; states that it is illegal to mail unsolicited credit cards; provides right of rescission in some cases; controls advertising credit regarding disclosures; limits wage assignment and loss of employment.

8.

	Left List	Right List
U-2 Left	Relative, etc.	A B G H I
	Life Insurance Loan.	C E (some) F G
	Credit Union	B
U-1 Right	Bank Passbook Loan	A C G H (some) I (some)
	Bank Installment Secured	A G
	Bank Unsecured Loan.	A G
	Savings and Loan	A B G
	Revolving Check Credit	A G
	Consumer Finance Company (small loan company)	B C E F (some) I (some)
	Pawnbroker	E F

Pre/posttest Scoring Key

Scoring the test

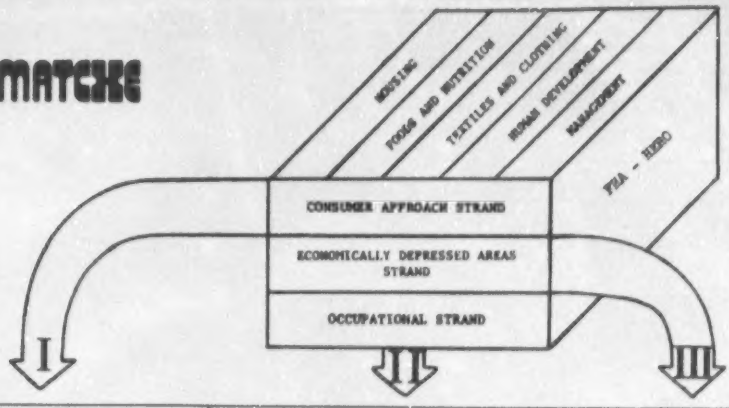
1. 3 points x5x2 =	30
2. 9 sections x 2 =	18
3. (10 items x 2) - (1 x errors) =	20
4. 20 points, Use an A,B,C scale =	20
5. 9x3. Use an A,B,C scale =	27
6. 5 per section x 3 =	15
7. 10x3. Use an A,B,C scale =	30
8. Left column - for 7 items = in accurate order	10
Right column max. points = is 30 with 1 each	30
Total	200

Grading recommended

Grade	Grading Scale (10)	Total Points (200)	Percent of total
A	8.5+	170+	85+
B	7.5+	150+	75+
C	6.5+	130+	65+
D	5.5+	110+	55+
F	5.0-	100-	50-

Grading here is considered to be "stiff," recognizing the significance of quality in skill and ability of any graduate as home economist moving into a profession where these qualities are used on a regular basis.

MATRIX



	I	II	III
A.	CORE: CONSUMER APPROACH TO HOMEMAKING EDUCATION 1 Life Styles and the Consumer 2 Community Consumer Resources 3 Consumer Rights and Responsibilities 4 Incorporating the Consumer Approach in Homemaking Classes	CORE: ESTABLISHING OCCUPATIONAL PROGRAMS 1 Analyzing Job Market Opportunities 2 Developing Occupational Programs 3 Implementing Occupational Programs 4 Evaluating Occupational Programs	CORE: TEACHING HOME ECONOMICS IN ECONOMICALLY DEPRESSED AREAS 1 Characteristics of Economically Depressed Areas 2 Life Style Characteristics of Economically Depressed Areas 3 Community Resources for Economically Depressed Areas 4 Developing and Implementing Programs for Economically Depressed Areas
	AREA (Module) PACKAGES	AREA (Module) PACKAGES	AREA (Module) PACKAGES
B.	HOUSING 1 Consumer Use of the Community 2 Procedures for Selecting a Community 3 Procedures for Selecting Housing 4 Shopping for a Home Loan 5 Procedures for Selecting Furnishings 6 Maintenance Procedures for Surfaces, Furniture, and Appliances	HOUSING 1 Occupational Opportunities Related to Housing and Interiors 2 Required Skills for Retail Sales of Furnishings and Related Household Items	HOUSING 1 Low Income Housing 2 Government Housing Programs 3 Low Income Furnishings
C.	FOODS AND NUTRITION 1 Technological, Sociological, Ecological, and Environmental Factors Related to Food 2 Regulatory Agencies Responsible for Wholesomeness and Quality of Foods 3 Consumer Aspects in Planning Meals 4 Cultural Food Patterns 5 Influences on Food Prices	FOODS AND NUTRITION 1 Occupational Opportunities Related Foods and Nutrition 2 Operations and Activities of a Food Service Operation 3 Managing a Food Service Operation	FOODS AND NUTRITION 1 Food Availability in Economically Depressed Areas 2 Low Income Food Patterns 3 Meal Management on a Low Income
D.	TEXTILES AND CLOTHING 1 Consumer Approach to Textiles and Clothing 2 Sociological, Psychological, and Economic Factors Affecting Clothing Selection 3 Clothing Needs of Individuals 4 Applications and Implications of New Technology in Textiles and Clothing	TEXTILES AND CLOTHING 1 Occupational Opportunities Related Textiles and Clothing 2 Assembly Line Garment Construction 3 Merchandising Textiles and Ready-To-Wear	TEXTILES AND CLOTHING 1 Clothing the Individual and Family 2 Utilizing Resources for Clothing and Textiles
E.	HUMAN DEVELOPMENT 1 Societal Changes Affecting the Family 2 The Relationship Between Spending Patterns and Interpersonal Relationships 3 Financial Pressures in Various Life Styles and Cycles 4 Individuals and Families in Crisis 5 Consumper Aspects of Parenthood	HUMAN DEVELOPMENT 1 Occupational Opportunities Related to Human Development 2 Children's Center Aide 3 Developing Programs for Preschool Children 4 Convalescent Home Aide	HUMAN DEVELOPMENT 1 Characteristics of Economically Depressed Area Families 2 The Child and the Economically Depressed Area Family 3 Resources for the Economically Depressed Area Family
F.	MANAGEMENT 1 Relationship Between National and Consumer Economics 2 Consumer Legislative Issues 3 Environmental Issues and the Consumer 4 Financial Management 5 Family and Individual Credit Management 6 Management View of the Multiple Role 7 The Metric System	MANAGEMENT 1 Occupational Opportunities Related to Home Management and Supporting Services 2 Occupational Preparation for Jobs Utilizing Housekeeping Skills	MANAGEMENT 1 Management Skills 2 Money Management 3 Marketing Practices in Relation to Low Income Clientele